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KANSAS HEALTH POLICY AUTHORITY

KHPA Agency Overview
House Health and Human Services Committee
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Good morning Madame Chairman, Mr. Vice Chairman, and members of the Committee. I am Marcia Nielsen, and I serve as the Executive Director of the Kansas Health Policy Authority Board. I also served as the first KHPA Board Chair from fall 2005 to July 2006. Today I will provide the House Health and Human Services Committee an overview of our agency and share excerpts from the 2008 KHPA Annual Report which was approved by our Board on Tuesday (and electronically submitted to the legislature and provided publicly at our website www.khpa.ks.gov). I will also provide some additional information on our health reform priorities, and a brief overview of our early assessment of the Governor's budget.

Agency Overview

KHPA History: The Kansas Health Policy Authority was established in 2005 with passage of S.B. 272 in the Kansas legislature. That bill established KHPA as a state agency within the executive branch of state government (K.S.A. 75-7401, et seq.). The general charge is to improve the health of Kansans and to develop and maintain a coordinated health policy agenda that combines effective purchasing and administration of health care with health promotion oriented public health strategies.

Before 2005, the state of Kansas purchased health care and health coverage for state employees and various other populations through a myriad of different programs and agencies. One of the primary reasons for consolidating those programs into a single agency was to leverage the combined purchasing power of the state to achieve greater efficiency and cost savings.

The bill called for forming a 16-member Board of Directors to govern the agency, including nine voting members appointed by the Governor, Speaker of the House and Senate President, as well as seven non-voting, ex-officio members. The seven ex-officio members include the secretaries of Health and Environment, Social and Rehabilitation Services, Administration and Aging; the director of health of the Department of Health and Environment, the state Insurance Commissioner and the Executive Director. In 2008, the Kansas legislature passed legislation designating the state Education Commissioner as an eighth ex-officio member. The board provides independent oversight and policymaking decisions for the management and operation of KHPA.

Vision Principles: The KHPA Board of Directors adopted the following vision principles to serve as the guiding framework for the agency and the board. They reflect the board's application of their statutory mission to the full range of health policies within their purview.

Access to Care – Every Kansan should have access to patient-centered health care and public health services ensuring the right care, at the right place, at the right price. Health promotion and disease prevention should be integrated directly into these services.

Quality and Efficiency in Health Care – The delivery of care in Kansas should emphasize positive outcomes, safety and efficiency, and be based on best practices and evidence-based medicine.

Affordable and Sustainable Health Care – The financing of health care and health promotion in Kansas should be equitable, seamless and sustainable for consumers, providers, purchasers and government.

Promoting Health and Wellness – Kansans should pursue healthy lifestyles with a focus on wellness to include physical activity, proper nutrition and refraining from tobacco use as well as a focus on the informed use of health services over their life course.

Stewardship – The Kansas Health Policy Authority will administer the resources entrusted to us by the citizens of the state of Kansas with the highest level of integrity, responsibility and transparency.

Education and Engagement of the Public – Kansans should be educated about health and health care delivery to encourage public engagement in developing an improved health system for all.

KHPA Programs: The Executive Director of KHPA has responsibility and statutory authority for the oversight of the Medicaid and SCHIP programs, the State Employees Health Benefits Program, State Workers Compensation, and the health care data responsibilities of the former Health Care Data Governing Board.

Medicaid: In 1965, Congress amended the Social Security Act by adding Title XIX (Medicaid) which provides medical coverage for individuals of all ages based on financial eligibility. Medicaid is a joint federal-state health insurance program for low income individuals, the aged, and people with disabilities. In Kansas, the federal government pays approximately 60 percent of the cost of the program, with the state paying the remaining 40 percent.

SCHIP: In 1997, Congress amended the Social Security Act further by adding Title XXI establishing SCHIP – the State Children's Health Insurance Program. The aim was to insure children whose families earned too much to qualify for Medicaid but too little to afford private insurance. Like Medicaid, SCHIP is a joint federal-state program. However, unlike Medicaid, which is an entitlement program, SCHIP is a block grant program that is subject to federal reauthorization. In 2007 Congress passed a reauthorization bill that expires on March 31, 2009.

In Kansas, the federal government pays approximately 72 percent of SCHIP costs. The state pays the remaining 28 percent as well as any excess above the federal allotment. SCHIP is administered by the state within federal guidelines. Currently, the Kansas program insures children in families with income below 200 percent of the federal poverty level. In 2008, the legislature approved expanding eligibility up to 225 percent of the poverty level, subject to the availability of increased federal funding which has not yet been forthcoming.

HealthWave: The word "HealthWave" originated as the state of Kansas' brand name for the SCHIP program in Kansas. In 2001, Kansas blended SCHIP and Medicaid so that families who are eligible for both programs can have seamless coverage, with the same plan and same providers for all family members. The term now applies to the blended program serving families with members in each of the two programs.

Last month (December) through the Medicaid and HealthWave programs, we provided medical coverage to

more than 300,000 people, which included more than 125,000 infants and children and nearly 88,000 elderly and disabled Kansans. Certain Medicaid-funded long-term care services, including nursing facilities and Home and Community Based Services (HCBS) are managed on a day-to-day basis by the Kansas Department of Aging (KDOA) and the Kansas Department of Social Rehabilitation Services (SRS). These agencies also set policy for the Medicaid programs under their jurisdictions.

Workers Compensation: KHPA administers the workers compensation program for state of Kansas employees. Officially known as the State Self Insurance Fund (SSIF), it was established in 1972 and eventually consolidated into KHPA in 2006. It is a self insured, self-administered program. The SSIF is funded by agencies based on experience rating. The rates are developed by an actuarial service using claims experience, payroll history, and caps on expenses. Rates are currently approved by the Department of Administration and published by the Division of Budget.

State Employee Health Benefits Plan: As an employer, the state of Kansas offers health coverage benefits to its employees and their dependents. In 1984 the legislature established the Kansas State Employees Health Care Commission (HCC) to, "develop and provide for the implementation and administration of a state healthcare benefits program." (K.S.A. 75-6501.) The HCC is chaired by the Secretary of Administration. It determines the benefits provided under the plan and the allocation of costs between the employer and employee. The HCC receives input from a 21-member Employee Advisory Committee that was established in 1995.

Over the years, the State Employee Health Plan has been expanded to include other employee groups. In 1999 the HCC approved inclusion of employees in Kansas public school districts, community colleges, technical colleges and vocational technical schools into the plan. In 2000, certain units of local government were allowed to join, including cities, counties, townships, public libraries, public hospitals and extension councils.

Underwriting guidelines were developed to assure that state employees would not be adversely affected by those additions. Non-state entities pay different composite rates and premiums to reflect the cost of administering those benefits.

For most of its history, SEHP was administered through the Department of Administration which contracted out with third-party administrators. In 2006, the function was shifted to the newly-created Kansas Health Policy Authority.

Data Policy and Evaluation: The Data Policy and Evaluation Division was established to consolidate data management and analysis with policy evaluation. All program data for Medicaid, SCHIP, and the State Employees Health Plan are available to analysts to assess the impact of proposed policies, forecast utilization and expenditures, and provide information to the KHPA Board, staff, and other stakeholders.

KHPA is charged with the responsibility of collecting a wide range of health and health care information that includes programmatic and administrative data as well as market-generated data. These data come from Medicaid and SCHIP, the State Employees Health Benefits Plan, State Workers Compensation Self-Insurance Fund, inpatient hospital claims information, heath care provider licensure databases, and private insurance data from the Kansas Health Insurance Information System (KHIIS).

House Substitute for SB 272, the enabling legislation for KHPA, transferred the responsibility for collection and management of a wide range of data once managed by the Health Care Data Governing Board (HCDGB). In addition, House Substitute for SB 577 transferred to KHPA responsibility for collection of data from insurance carriers on behalf of the Commissioner of Insurance. KHPA is further charged with using and reporting those data to increase the quality, efficiency and effectiveness of health services and public health programs. KHPA is required specifically to adopt health indicators and include baseline and trend data on health costs and indicators

in each annual report submitted to the Kansas Legislature.

Initiatives: Although 2008 was a year of a faltering economy across the country, Kansas fared better than some other states. As 2009 begins, Kansas finds itself facing steep budget deficits and a growing number of Kansans in need. Despite the budget challenges facing the state, KHPA was able to make progress on a number of key initiatives, advancing the statutory mission of the KHPA to "develop and maintain a coordinated health policy agenda that combines effective purchasing and administration of health care with health promotion oriented public health strategies." The Board of Directors (the governing body for the agency) and staff also made significant progress with our statutory mandate regarding the "development of a statewide health policy agenda including health care and health promotion components." These are described in the annual report which also includes as required, "recommendations for implementation of the health policy agenda recommended by the authority." I would like to underscore a few of those key initiatives.

Effective Purchasing and Administration of Health Care:

- **Developed the Medical Home Model of Delivery:** KHPA convened a stakeholder group to begin implementing the medical home model that was enacted by the legislature in 2008. This process included a broad array of providers, consumers, health plans and businesses. The goal is to create a medical home model – or possible models – for Kansas, with incentives for payment reform that will promote improved health outcomes and lower health care costs. *Transforming the health care system requires a significant change in the ways we coordinate care and reimburse providers for primary care and prevention.*

- **Improved Payments for Hospitals which Treat Low Income Patients:** The Centers for Medicare and Medicaid Services (CMS) approved a plan submitted by KHPA to pay hospitals for treating indigent patients. The former Disproportionate Share Hospital (DSH) payment method resulted in Kansas hospitals receiving $22.2 million of available federal funding for Medicaid DSH payments in Fiscal Year 2007. With the reforms, the DSH program will provide at least an additional $4.3 million in federal matching funds annually. *Legislators have asked us to maximize the use of federal dollars; this is a noteworthy priority in Kansas Medicaid and we have made several State Plan changes this year to do just that.*

- **Implemented a Health Information Exchange Pilot Program:** The CareEntrust program was implemented in May 2008 for state employees who live in 15 counties in the Kansas City metropolitan area. This innovative employer-driven community health record gives consumers access to their health information and authority to share this information with providers of their choosing. We have an existing Medicaid community health record pilot on-going in Sedgwick County. *Expanding Health Information Technology is one of the most substantial ways to improve patient safety, health outcomes, and control rising health care costs.*

Regarding our focus on health promotion oriented public health strategies, the KHPA made progress on our goal to improve the overall health status of Kansans and ultimately lower health care costs. Achievements include:

Health Promotion Oriented Public Health Strategies:

- **Provided Wellness Programs for State Employees:** More than 76,000 employees and dependents are now eligible to participate in the wellness programs. Approximately 16,300 members took a personal health assessment and more than 9,000 individuals participated in health screening events held across the state. *In order to control health care costs in the long term, we need to better manage our own health through improved health and wellness, and disease/care management. This will be an increased priority for Kansas Medicaid in the 2009.*

- **Launched Online Health Consumer Search Tool:** The Kansas Health Online Consumer Transparency Portal (www.kansashealthonline.org) was launched in January 2008. It is dedicated to informing health consumers by empowering them with resources to stay healthy, manage their medical conditions, navigate the health system, improve their health literacy, purchase health care, compare provider quality and understand health policy. *Legislators have us to promote personal responsibility for health behaviors and providing education is the first step.*

- **Honored by the Institute for Health and Productivity Management:** KHPA was named a winner of the 2008 *Value-Based Health (VBH) Award* by the Institute of Heath and Productivity Management. The Institute recognized KHPA for innovative strategies in the 2009 state employee health plan that were designed to control costs by promoting healthy lifestyles and personal responsibility. *Lawmakers expect us to integrate appropriate health promotion and disease prevention in all of the programs we manage – and to use best practices management to help control health care costs.*

The KHPA made impressive progress on advancing data driven health policy, particularly with the exhaustive review of the Kansas Medicaid program through the Medicaid Transformation process. In addition, the KHPA succeeded in the requirement to "develop and adopt health indicators and shall include baseline and trend data on the health costs and indicators in each annual report to the legislature."

Data Driven Health Policy:

Completed the 2008 Medicaid Transformation Process to reform Kansas Medicaid: Since assuming responsibility for the Kansas Medicaid system on July 1, 2006, KHPA has engaged in a sweeping process of reviewing all the programs and services within Medicaid to improve their efficiency and effectiveness. This process, which we have called "Medicaid Transformation," seeks to make sure that every dollar is spent wisely and produces the best possible result for Medicaid beneficiaries.

The first 14 of those program reviews will be presented to the 2009 legislature. They include

- Medicaid and SCHIP Dental Programs
- Durable Medical Equipment
- Medicaid Fee-for-Service Home Health Benefits
- Hospice Services
- Acute Care Inpatient/Outpatient Hospital Services
- Independent Laboratory and Radiology
- Medicaid Pharmacy Fee-for-Service
- Medicaid Fee-for-Service Transportation
- HealthWave
- HealthConnect Kansas
- Medical Services for the Aged and Disabled
- Emergency Health Care for Undocumented Persons (SOBRA)
- Eligibility Policy and Operations of Public Insurance Programs
- Quality Improvement in KHPA's Health Care Programs

Key Findings: The program reviews completed provide an overall picture of Medicaid in Kansas. They show that while children and families account for most of Medicaid enrollment, much of the increase in expenditures is driven by the cost of serving elderly and disabled beneficiaries. The reviews show increases in spending for hospital and hospice services, durable medical equipment and pharmaceuticals. The reviews also indicate that efforts by KHPA to reduce costs are meeting with some success. The cost savings derived through the

recommendations from the Medicaid transformation process and other implemented Medicaid cost efficiency measures are described in the Medicaid Transformation Process fact sheet.

Those 14 reviews will be presented to the Kansas legislature. An additional 12 program reviews are scheduled for completion in early 2010. The overall purpose of the program reviews is to provide a regular and transparent format to monitor, assess, diagnose, and address policy issues in each major program area within Medicaid. The preparation of these reviews is designed to serve as the basis for KHPA budget initiatives in the Medicaid program on an ongoing basis, providing a concrete mechanism for professional Medicaid staff within the KHPA to actively recommend new policies. *Our goal is that well-founded, data-driven, and operationally sound Medicaid reform proposals may be advanced to the Board, the Governor, and the Legislature.*

- **Finalized and published Health Indicators:** The KHPA Board adopted a list of nearly 90 different measures which had been recommended by the Data Consortium, divided into four categories that are aligned with the KHPA Board's vision principles: Access to Care; Health and Wellness; Quality and Efficiency; and Affordability and Sustainability. These measures are presented as concise graphics and tables that show baseline and historical trends along with benchmark information for comparison to national and peer state data (see end of testimony for an example). In addition, statistical indicators are included which provide intuitive alerts signaling either the achievement of policy objectives or the need for policy intervention. *Our statute explicitly requires the KHPA to adopt health indicators and include baseline and trend data on health costs and indicators in each annual report submitted to the Kansas Legislature.*

- **Completed Plans to Implement Data Analysis Infrastructure:** This ambitious technology infrastructure development initiative aims to consolidate and manage health care data for several state programs managed by KHPA, including the Medicaid Management Information System, the State Employee Health Benefit Program, and the Kansas Health Insurance Information System, and allow analysis of health care based on episodes of treatment, disease management, predictive modeling, and the measure of cost and outcome effectiveness. This web-based tool is being designed to use public and private data to compare the health care service and utilization patterns, identify trends and areas for focus and improvement. *KHPA is charged with using and reporting data to increase the quality, efficiency and effectiveness of health services and public health programs.*

Finally, the Board and staff also made significant progress with our statutory mandate regarding the "development of a statewide health policy agenda including health care and health promotion components." Last year, the KHPA advanced a set of health reform recommendations that met with limited progress. Legislators asked us to prioritize our reform recommendations for 2009, and requested that we complete 20 studies on a variety of different topics; on 7 studies we worked in collaboration with other agencies. Those studies have been completed and delivered to the Legislative Coordinating Council. In order to prepare our 2009 health reform priorities, we met with Kansans in 54 meetings across the state this summer to discuss their recommendations for moving a health agenda during these difficult budget times. Our reform recommendations are:

Coordinating Statewide Health Policy Agenda

- **Advancing a Statewide Clean Indoor Air Law:** An overwhelming number of studies confirm that smoking is the number-one preventable cause of death and illness in Kansas. Without such a ban, even those who wisely choose not to smoke are made to suffer from exposure to secondhand smoke. This is especially true for people who work in restaurants, bars and other establishments where smoking is allowed, as well as the customers who patronize those establishments. A statewide ban would protect the public from these harmful effects and send a strong social message that smoking in public is unacceptable. We strongly support the clean indoor air legislation being proposed by Senator David Wysong and the Senate Public

Health Committee and stand ready to work with you on this common sense legislation that helps control care costs without spending scarce state general fund dollars.

- **Increasing Tobacco User Fees:** KHPA is proposing a 95-percent increase in the state excise tax on tobacco. That would increase cigarette taxes by $.75 per pack – from $.79 to $1.54. This is based on findings that show a large amount of health care expense in the United States is directly attributable to smoking. The purpose of the tax is twofold: to make smoking more expensive, thus encouraging smokers to quit and discouraging non-smokers from ever starting; and to generate revenue to fund expansion of health insurance coverage. The budget impact will add $87.4 million in new revenue for FY 2010.

- **Expanding Access to Affordable Health Care and Public Health**: Using the tobacco user fee as funding, the KPHA is proposing to expanding Medicaid to cover all parents and caregivers with incomes below the federal poverty level; as well as other reform measures aimed at expanding access to cancer screening for low-income Kansans, implementing a statewide Community Health Record CHR) and providing tobacco cessation programs for Medicaid recipients.

Governor's Budget: The FY 2009 Governor's Recommendation for KHPA is $1.8 billion (including $503.2 million from the State General Fund). Excluding Medicaid, HealthWave, and other assistance programs, the Governor's recommendation for program administration totals $88.0 million (including $23.2 million from the State General Fund). The recommendation reflects a 6.6% reduction in administrative spending compared to the KHPA approved budget. We made some of those reductions through administrative belt-tightening and contract reductions in the fall in order to meet the budget restrictions imposed during the budget development process as requested by the Governor. However, the Governor's budget recommends $11.2 million in additional reductions to FY 2009 State General Fund expenditures.

For FY 2010, the Governor recommends $1.9 billion (including $515.0 million from the State General Fund). For program administration, the budget recommends $82.6 million (including $22.3 million from the State General Fund). This is a 12.3% reduction compared to the approved FY 2009 administration budget.

These reductions are described in the table below:

Selected Budget Reduction Items in Governor's Budget

	FY 2009		FY 2010	
	SGF	All Funds	SGF	All Funds
Reduce Contractual Service Expenditures	$1,111,749	$5,734,123	$1,321,175	$5,525,000
Reduce Salary and Wage expenditures	$383,595	$1,153,866	$440,430	$1,246,706
Administrative reductions in travel, printing, supplies, communications, equipment replacement	$67,249	$399,000	$53,642	$359,100
Implement Employer Sponsored Insurance for SCHIP - Supplemental request	$125,000	$250,000		
Citizenship Paperwork Requirement for SCHIP - Supplemental request	$280,000	$560,000		
Switch Health Care Access Improvement Fee Fund for State General Fund	$6,000,000			
Switch Medical Programs Fee Fund for State General Fund	$2,500,000		$5,700,000	
Correct SCHIP expenditures to match caseload estimate	$689,687	$2,518,481		

Return unspent Children's Initiative Fund for Immunizations		$222,123		
Return unspent State General Fund from Regular Medicaid appropriation	$997,907	$997,907		
Move Children's Initiative Fund for immunization to KDHE				$500,000
Medical Assistance program recommendations and Transformation savings.			$9,500,000	$23,900,000
18 month time limit for Medikan Enrollment			$6,700,000	$6,700,000
Expand Preferred Drug List to include mental health drugs			$800,000	$2,000,000
	$12,155,187	$11,835,500	$24,515,247	$40,230,806

That concludes my testimony. Looking ahead to the coming year, we acknowledge that Kansas faces serious economic and fiscal challenges. We also acknowledge that these challenges present a kind of double-edged sword for the state: increased demand for publicly-funded health services; and fewer resources available to pay for them. Because of that, we believe now it is more important than ever to leverage the resources we have to provide the best possible service to Kansans in the most effective and cost-efficient manner possible.